

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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### **Senate Bill 1315**

**Senator Sher (As amended 2/25/02)**

### **Position:**

**Support**

### **Proponents:**

**California Public Interest Research Group (Sponsor), AFT College Faculty Guild #3521, CA Seniors Coalition, Congress of CA Seniors, Consumers Union, Grey Panthers of CA, Health Access CA, Lambda Letters Project, Older Women's League of CA**

### **Opponents:**

**AmerisourceBergen, Abbott Laboratories, Pharmaceutical Research and Manufacturers of America**

## **SUMMARY**

Senate Bill 1315 requires specified state agencies that purchase prescription drugs to contract with a centralized purchasing agency that would buy prescription drugs using a single, statewide formulary, and provide them to contracting agencies at reduced cost. It also permits other state agencies to participate in the centralized program.

## **HISTORY**

SB 461 (Torlakson, 2002) requires the California State Teachers' Retirement System (CalSTRS) to establish and administer a Catastrophic Prescription Drug Insurance (CPDI) Program to provide high deductible coverage for prescription drugs to eligible retired members of the Defined Benefit (DB) Program.

Chapter 874, Statutes of 2000 (AB 2383—Keeley), among other things, requires CalSTRS to report to the Legislature on a prescription drug program and a health benefits program for retired members, and authorized the California Public Employees' Retirement System to submit a proposal to administer a health benefits program for CalSTRS retirees and their dependents.

Chapter 1032, Statutes of 2000 (SB 1435—Johnston) requires CalSTRS to pay the Medicare Part A premiums for those eligible retired members of the DB Program effective July 1, 2001, including any penalties applicable to enrollment in Parts A or B by eligible members who enroll after age 65.

Chapter 740, Statutes of 1999 (SB 159—Johnston) requires CalSTRS to develop a program to provide health care benefits for members, beneficiaries, children, and dependent parents.

Chapter 968, Statutes of 1998 (SB 1528—Schiff) requires CalSTRS to conduct a study on the feasibility of providing a health care program, including vision and dental, to CalSTRS members, beneficiaries, children, and dependent parents.

## **CURRENT PRACTICE**

The availability of health care benefits for retired CalSTRS members varies among the membership and has historically been provided by school district employers on a district-by-district basis. Some districts provide full health care benefits, paying 100 percent of the premiums for medical, dental and vision insurance to retired teachers and their dependents, while other districts provide vested health insurance benefits to their retired employees, or offer benefits only until the age of 65. Still other districts do not provide any health care coverage to their retired employees.

CalSTRS does not currently provide health insurance, nor play any role in securing health care coverage for active or retired members of the DB Program other than through the Medicare Premium Payment (MPP) Program established pursuant to Chapter 1032, Statutes of 2000 (SB 1435—Johnston). Under the MPP Program, CalSTRS pays the Medicare Part A (hospitalization) premium for those members who retired prior to January 1, 2001, are not eligible for premium free Medicare Part A, and who have enrolled in Medicare Parts A and B. Under authority provided in the enabling legislation, the Teachers' Retirement Board (Board) extended the eligibility for the MPP Program to DB Program members who retire prior to January 1, 2006, if the DB Program member retires from a district that held a Medicare Division Election.

As a service to the retired member, CalSTRS deducts monthly health care premiums, including Medicare Part B (medical insurance) premiums, from retirement allowances at the member's request, and forwards the money to the appropriate provider. No other statewide health care benefit, such as prescription drugs, is provided to CalSTRS retirees.

Pursuant to Chapter 874, Statutes of 2000 (AB 2383—Keeley), CalSTRS reviewed CPDI plans along with other possible health benefit programs designed to extend healthcare coverage to all retired members. Features of the CPDI plan recommended by the Board provide CalSTRS members who retire with a specified amount of credited service coverage after their total out-of-pocket prescription drug costs exceed a specified amount. Members would pay a co-payment up to a second specified amount. The plan is not a first-dollar plan, but would be a basic safety net for the protection of DB Program members against catastrophic prescription drug costs.

SB 461 (Torlakson) requires CalSTRS to establish a CPDI program with features substantially similar to those recommended by the Board in its previous report to the Legislature.

## DISCUSSION

Specifically, Senate Bill 1315:

- Requires the Governor to designate an existing state agency as a central purchasing agency to buy pharmaceuticals and execute prescription drug purchasing agreements with specified state agencies that purchase pharmaceuticals.
- Permits state agencies that are required to contract with the central purchasing to opt out of the program if they can buy pharmaceuticals at lower cost. CalSTRS and other agencies that are not listed as participants in the program may elect to participate.
- Requires the central purchasing agency to establish a single drug formulary and utilize existing distribution methods. In addition, it requires the agency to contract with a Pharmaceutical Benefits Manager (PBM).
- Allows the central purchasing agency to provide discount prices or rebate programs for seniors and persons without prescription drug insurance. Allows hospitals to participate in the bulk purchasing program.
- Authorizes the central purchasing agency to study the feasibility and appropriateness of allowing private sector purchasers to contract with the agency and establishing voluntary private buying clubs, cooperatives, or purchasing alliances comprised of small business or individuals for the purpose of purchasing prescription drugs at optimal prices.
- Requires the Department of Finance to approve a contract between the central purchasing agency with the PBM. Authorizes the Attorney General to investigate the pricing policies and practices of pharmaceutical manufacturers.

According to the sponsor, the California Public Interest Research Group (CALPIRG), the increase in the cost of prescription drugs outpaces any other component of health care and continues to rise. CALPIRG believes the state is not doing all it can to lower its pharmaceutical costs and estimates that by establishing a statewide prescription drug buying pool as proposed by SB 1315, the state can save approximately \$100 million annually.

CalSTRS does not purchase pharmaceuticals for its members, and the Board has not recommended offering prescription drugs directly to CalSTRS members in its previous health benefit studies. In contrast, agencies specified in the bill, such as the Department of Corrections and the Department of Mental Health, are large purchasers of prescription drugs.

SB 1315 requires participating agencies to use a common drug formulary. This requirement would conflict with the CPDI Program proposed by SB 461 and restrict alternative plans CalSTRS may offer its retired members, because they are covered under a variety of health insurance plans with varying prescription drug benefits, each with its own drug formulary. SB

461 requires a CalSTRS CPDI Program to be coordinated with each retired DB Program member's medical insurance program, rather than be based on its own formulary.

Because the bill authorizes a state agency not listed in the bill to opt into the central purchasing program, CalSTRS could elect to participate in the program if CalSTRS established a program that resulted in the system purchasing prescription drugs, and determined that participating in such a program was cost-effective.

In addition, depending on the specific regulations established by the central purchasing agency, authorizing the creation of voluntary private buying clubs, cooperatives, and purchasing alliances may be an effective way to provide low cost pharmaceuticals to retired CalSTRS members that do not have prescription drug coverage.

### **FISCAL IMPACT**

Benefit Program Costs – No impact on current benefit programs.

Administrative Costs – No impact on current administration.

### **BOARD POSITION**

Support. Although CalSTRS does not purchase pharmaceuticals and has not recommended offering them directly to retired members, this bill allows CalSTRS to elect to contract with the centralized purchasing agency if, at some time in the future, it determines that it is in the best interest of CalSTRS' retired members and the administration of the System's health benefits programs to do so.